1991 CONSUMER SURVEY

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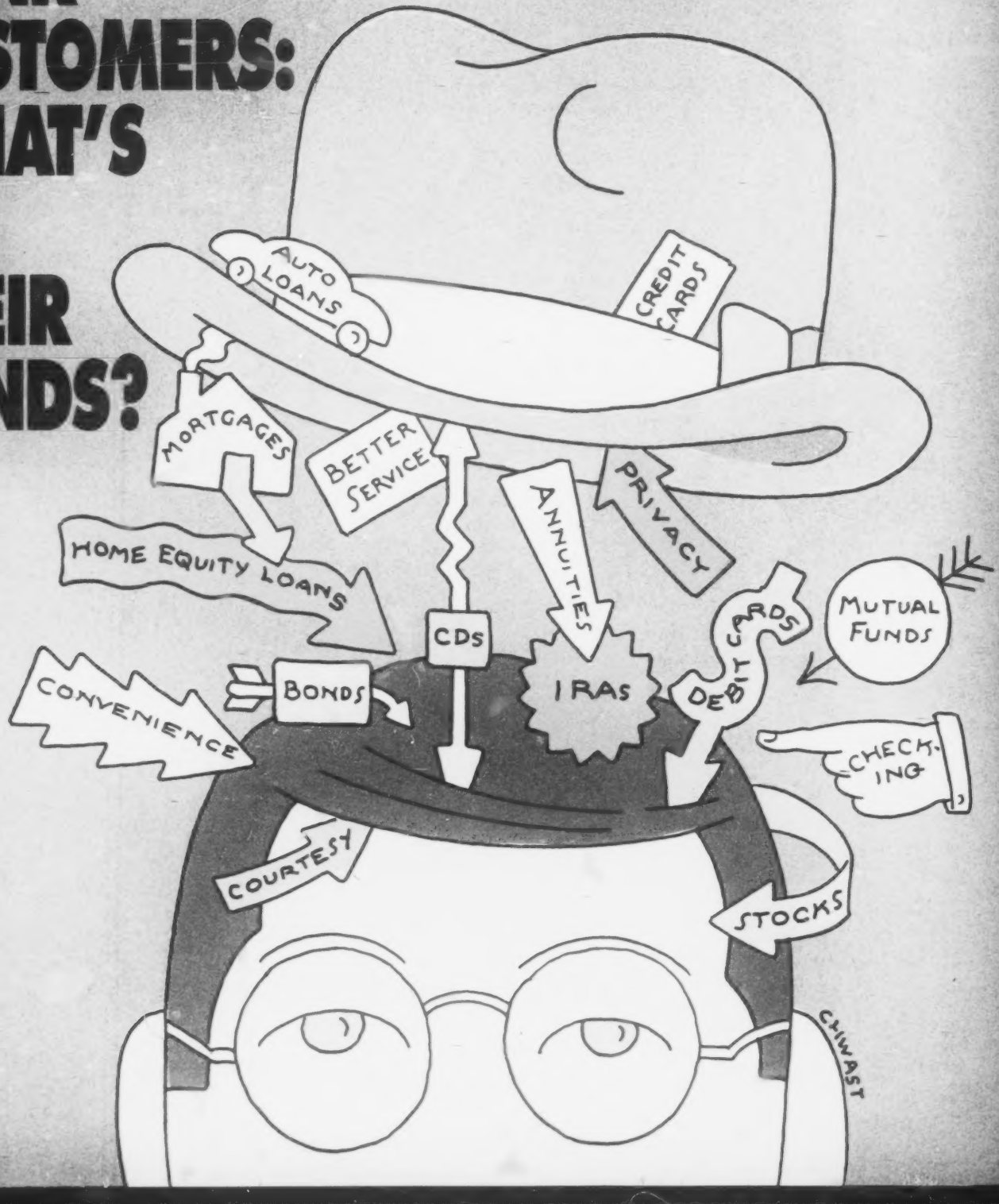
BANK CUSTOMERS: WHAT'S ON THEIR MINDS?



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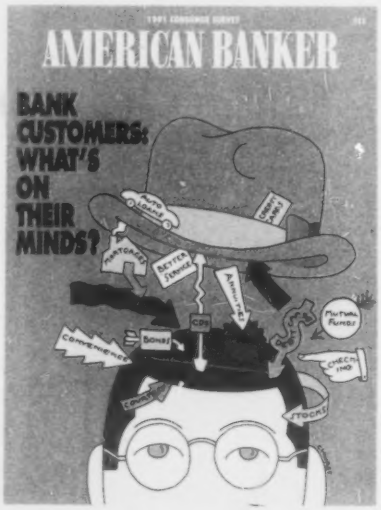

Bankers must be doing something right. This year's American Banker consumer survey shows that customer satisfaction was up sharply, with 66% saying they were "very satisfied" with their bank.

That, of course, can't eliminate the banking industry's broader ills. In one of this year's most surprising findings, consumers professed high confidence in their own banks while saying that their confidence in the overall banking system had slipped badly.

These are but a few of the findings in our eighth annual consumer survey, which this year was conducted in cooperation with the Gallup Organization Inc. Especially helpful was Carole Hewitson, vice president of Gallup's financial research division.

The survey was conducted by telephone with 1,007 households throughout the United States. It charted responses to questions about the industry's overall health, about new products and about trends in savings, borrowing, and marketing.

The chief architect of this year's survey – along with the Gallup Organization – was Jeffrey Kutler, American Banker's assistant managing editor. Jeffrey's overview begins on page 6.

Features editor Patricia Kitchen coordinated the editing and writing, along with Joseph L. McCarthy, assistant features editor. The art department – Pamela Budz Moriarty, Dylan Kreuzer, and Carl Zeichner – designed the magazine and the graphics. Jane Sandiford handled the copy editing.

If you want to know what consumers are thinking, it's important that you spend some time with this survey.

Sincerely,

Edwin A. Finn, Jr.
Editor

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How the Survey Was Conducted

The articles in this publication report and analyze the results of the *American Banker*'s eighth annual survey of consumer attitudes and opinions on issues of interest to the financial services industry.

The 1991 survey is based on 1,007 telephone interviews, conducted in May, with a randomly selected cross section of the U.S. population. Each telephone-owning household had a theoretical chance of being selected to be in the representative sample. Questions were posed to heads of households that maintained at least one type of account with a financial institution.

The survey was conducted by the Gallup Organization Inc., Princeton, N.J. Gallup's financial research division worked with *American Banker* editors to design the questionnaire and to interpret the results. The survey consisted of 48 questions and typically took 16 minutes to administer.

The sampling error for the 1,007 surveyed households is plus or minus three percentage points at the 95% confidence level. In other words, for a question on which half of all the participants give the same response, there is a 95% probability that the actual response of the total population would be between 47% and 53%.

The three-point margin of error applies to questions answered by all 1,007 in the sample. Responses by subgroups have greater margins of error.

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Some Bright Spots Amid Industry Woes

By Jeffrey Kutler

THOUGH WARY OF THE SYSTEM, CUSTOMERS ARE HAPPY WITH THEIR OWN BANKS.

Amid all the bleak news about the banking industry, some bright spots appear in the 1991 *American Banker* consumer survey.

For the third year in a row, consumers' concern about the health of the banking system has risen to new heights. But their suspicions seem to have had little effect on their generally positive feelings toward their own financial institutions.

Among the findings from this year's *American Banker* poll:

- Customer satisfaction took a sizable jump – an indication that financial institutions' efforts to improve service and responsiveness are paying off.
- Half or more of customers rated their institutions excellent on such attributes as staff courtesy and clarity of statements. Thrifts – despite their problems – and credit unions did better on these scores than banks.
- Half of the people said they are making an effort to increase their savings, presenting a clear opportunity for financial institutions seeking stable deposits.
- As institutions anticipate gaining the freedom to provide brokerage, mutual fund, and insurance services, much of the public is showing a willingness to obtain those services where they bank.

Industry observers said a reservoir of trust in local institutions makes up for most of the public's misgivings about overall economic and financial instability. It may be responsible for the receptivity to innovations in banking – especially those that improve the return on savings.

For example, 70% of bank, thrift, and credit union customers said they would be likely to invest in a money market fund from their primary institution. Almost 60% would go for stock and bond mutual funds or annuities.

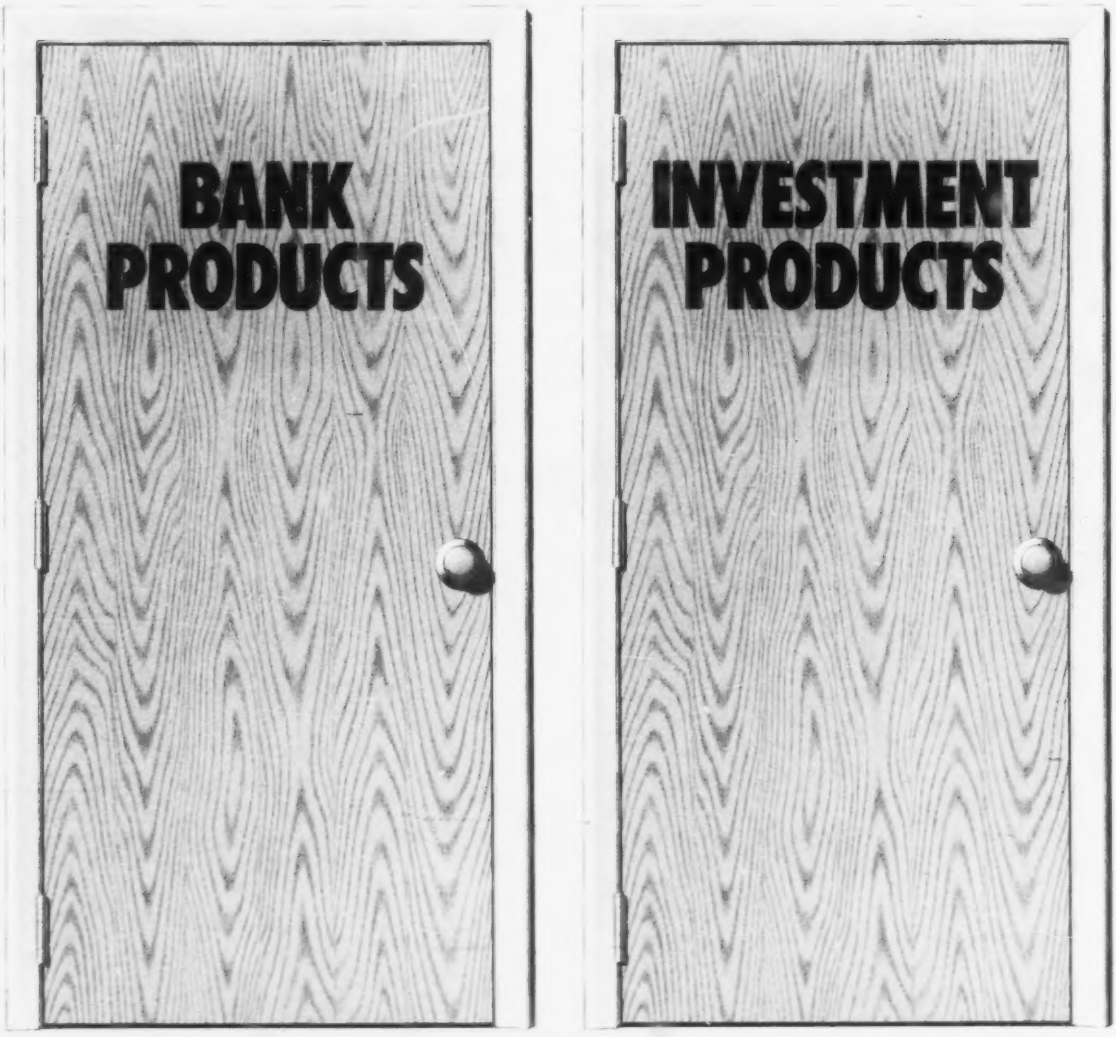
The response to insurance products was less enthusiastic, at 39%, according to the eighth annual *American Banker* consumer poll.

The telephone survey was conducted last May by the Gallup Organization Inc. The 1,007 survey participants were randomly selected, adult heads of household who did at least some business with a financial institution.

Open to New Products

While some members of Congress and other critics of the new powers warn that diversification would be dangerous for banks and other depository institutions, consumers seem ready to put them to the test.

The people were open to new services and looked positively on their own institutions despite the fact that



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46% viewed the banking system as unhealthy. And 53% expressed some concern about the safety of their deposits.

The 46% reading is 11 points higher than in 1990, which had been the peak since the *American Banker* began the poll in 1984. (The statistical margin of error is plus or minus three percentage points.)

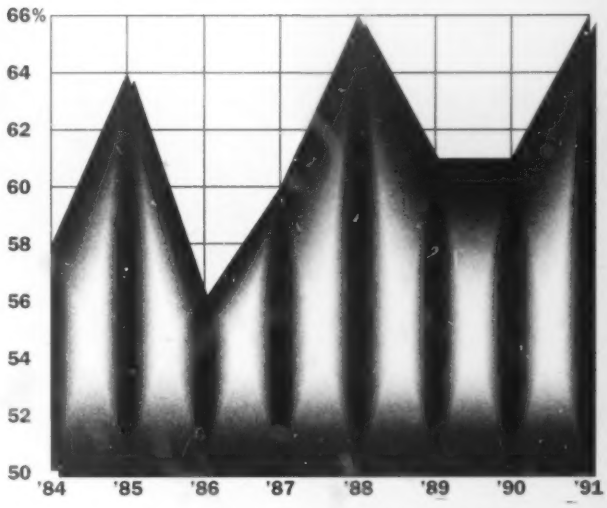
The "unhealthy" response was down at 23% in 1988, before the words "crisis" and "bailout" were regularly attached to "thrift" and "insurance fund."

Yet many of the skeptics about the industry's condition were among the 66% of the population who said they were "very satisfied" with the institution they designated as their principal financial relationship. Another 29% were "somewhat satisfied."

Those who voiced complaints mentioned fees, interest rates, or poor service, not financial troubles.

Despite Qualms About Industry's Health, Customer Satisfaction Remains High

Percentage "very satisfied" with principal financial institution matches eight-year high



Source: American Banker/Gallup 1991 Consumer Survey

Same View of Congress

"It is the same mechanism at work in the political arena," said Robert G. Stemper, a former Citicorp consumer bank executive who is now a consultant based in Sunnyside, N.Y. "Polls always show that people trust their congressman, but ask them if Congress can be trusted, and they say no.

"Most bank customers seem to be saying, 'In a sea of sinking ships, the one I am on is staying afloat.' "

"There is definitely a concern about the health of the industry, but it hasn't really hurt anyone's pocketbook," said L. Biff Motley, executive vice president at Premier Bancorp, Baton Rouge. "When people have those concerns, they fall back on their experience with their banks, which is based on good service, trust, and involvement in communities over a long period of time."

"While our customers are solicited by nonbank players, they feel more comfortable being inside our bank and knowing it and its integrity are behind the transaction," said W. Brent Robinson, executive vice president of American Savings Bank, Stockton, Calif.

Premier Bancorp and American have both recovered from tough times and typify the stability and resiliency that consumers ascribe to their chosen financial institutions.

Premier's subsidiary, Premier Bank, was rocked by the decline in oil prices that sent its region into recession before the rest of the nation. But it came through the period intact while weaker competitors did not, rebuilt its capital, negotiated a stakeout investment by Banc One Corp. of Ohio, and symbolized its revitalization with a name change and creation of a unified product line throughout its network of 100 offices.

Flattering Comparisons

Mr. Motley said the image of a survivor like Premier is enhanced every time a sick thrift is closed – a common occurrence in the Southwest in recent years. "The regulators are outstanding at getting money back to depositors," he said. "They typically make an announcement Friday and have checks in the mail Monday. The dollars flow into healthy institutions, and we have definitely been a beneficiary."

American Savings Bank, once the nation's largest thrift and now the eighth largest, with $17 billion in assets and 170 branches, owes its survival to a government-assisted buyout in 1988 by the Robert M. Bass Group of Texas.

American turned the crisis into an opportunity, stepping up its staff-training programs in sales and customer service. The thrift now claims to be a leader in customer satisfaction in its California markets.

"You have to remember, our retail franchise and branch network were attractive all along and a major reason why we were able to attract new capital," said Mr. Robinson, American's head of retail banking. "In terms of customer service and sales, we were every bit as good then [before the bailout] as we are today."

Mr. Robinson pointed out that thrifts historically offered better service than commercial banks, in part because they focus on a smaller set of products and their branches are less crowded. "We have a narrow target segment – our primary customer is age 55 and over – and we concentrate on giving them personal attention," he

said. "We don't try to be all things to all people."

Service was a theme of American's 1991 television ads, with one commercial showing chairman Mario Antoci exhorting employees to take initiatives to satisfy customers.

Research Pays Off

Like virtually every bank and thrift in a competitive market, American Savings Bank conducts extensive research – including quantitative surveys and focus group interviews – to assess customer needs, the institution's success in meeting them, and how the institution measures up against the competition.

Citibank in New York has been in the forefront of the research and customer-service movement, seeking to measure, among other things, how its investment in branch automation and automated teller machines has affected competitiveness. Citibank claims that its customers are more satisfied than those of other banks with the 24-hour access, and that general satisfaction levels have been improving.

"The entire bank and each of its business units have staff responsible for service quality," said spokesman William Ahearn. The decentralization is necessary because customer expectations or demands outside New York differ from those inside the city. In the latter, a "Hi, how are you" from a teller may not be what time-pressed people regard as quality, he said.

Such research, and the way institutions are following up on it, may be behind the measurable gain in quality that showed up in this year's *American Banker*-Gallup survey.

Despite thrifts' tradition of quality, cited by Mr. Robinson, their broader financial problems did sully their reputation, according to *American Banker* surveys in recent years. This year, thrifts had the lowest overall satisfaction rating, with 62% of their primary customers saying they were "very satisfied," as opposed to 65% of commercial bank customers and 78% of credit union members.

All Enjoyed Gains

But thrifts shared in gains that affected financial institutions across the board in 1991. The percentage that were "very satisfied" was up five points from 1990, the same improvement that banks showed. Credit unions, the perennial leader in customer satisfaction, enjoyed an eight-point jump.

Asked if service quality had improved over the past year, 20% of thrift customers said yes. That was better than banks' 17% reading, but behind credit unions' 29%.

"There is no question – the industry is making a major effort in the area of quality," said Barry Deutsch, a former bank marketing director who now heads the Deutsch Consultancy Corp. in Coral Springs, Fla. He was among many observers who said those efforts are paying dividends, but he warned of complacency.

"Expectations have been lowered and standards lowered," he said, which implies that banks do not have to deliver as much as in the past to get good customer ratings. "When you get into detailed quantitative research and focus groups, you begin to hear real displeasure with banks' core service levels."

'Flight to Quality'

"Consumers have been trained to expect the level of service they now get," said Anat Bird, national director of financial institutions consulting at BDO Seidman, New York. Institutions try to attract business by differentiating themselves from competitors through "what bankers define as better service," she said. "The customer does not know what better service is. He'll know it when you show it to him."

The view from Idaho is different: "The customer is generally more de-

"Most bank customers seem to be saying, 'In a sea of sinking ships, the one I am on is staying afloat.' "

ROBERT G. STEMPER
Consultant

"There is definitely a concern about the health of the industry, but it hasn't really hurt anyone's pocketbook."

L. BIFF MOTLEY
Executive vice president
Premier Bancorp

manding than ever," said Robert J. Lane, president and chief executive officer of West One Bank, Boise, part of the $4.9 billion-asset West One Bancorp.

"There is a flight to quality," he said, that has led West One to step up its consumer research. "Five years ago, we simply didn't have the same concern for the customer and commitment to superior service that we have today.

"People do not want to do business with a bank – or a phone company or any other business – without a high level of service and responsiveness to their needs, and some assurance of the strength of the organization."

The latter point may not be the problem in Idaho that it has been in the Northeast or Southwest. Twenty-four of the Gem State's 25 banks earned money last year, and the money-loser was a start-up.

Mr. Stemper, the New York-based consultant and author of such books as "Successful Branch Management" (Bank Administration Institute, 1990) and "Service Selling" (John Wiley & Sons, 1991), said that after "five years of hype" about service and quality, "the message is getting through to the customer-contact level and service has generally gotten better." But when there is a problem or complaint, it gets magnified and continues to hurt the industry's image.

A Vocal Minority

"You only need 10% of your people complaining and telling stories, and it sounds like a torrent," said Peter Carroll, a retail banking expert at Oliver, Wyman & Co., a New York-based consulting firm.

Current customer-service theory, which grew out of a Washington consulting group called TARP in the 1970s and was embraced by American Express Co. among others, holds that customer satisfaction is not just based on problem avoidance. Problem solving has to be a priority, because people whose complaints are not resolved can make a disproportionate amount of noise – what people in Hollywood would call "negative word-of-mouth."

The *American Banker* survey shows a core of dissatisfied customers that has held steady in recent years at about 4% of the total. Marketing experts say the level is too high to dismiss as chronic, and must be whittled down.

Conversely, the number saying they were "very satisfied," while jumping to 66%, has merely rebounded to the level of 1988. Another percentage point or two would mark a real breakthrough.

If bankers' goal is to retain and gain profitable customers, they may need such a breakthrough, because competition is intensifying on all sides.

An Edge in Distribution

"The banking industry's strength is distribution," said Mr. Motley of Premier. Competing financial companies like American Express or Sears, Roebuck cannot match "the 50,000 bank branches in the country – and quality service," the banker said. "A large segment of the population wants to deal face to face with a banker, someone they trust. We can't out-product-develop American Express, but neither can they out-branch us."

"There is no question that the branch network is the key to banking in smaller communities, and even larger communities," said Mr. Lane of West One, which has 81 offices in Idaho. At a time of consolidations and branch closings, West One continues to open new offices – five over the last two years, and four more due this year.

But who are customers meeting face to face in bank branches? People whose skills need upgrading, bankers readily agree.

"We need college graduates, technology, training, and frankly, it's a cost problem," said Mr. Motley. "We have to work on that." □

Uneasiness Mounts Over Health of System

By Robert M. Garsson

BUT DEPOSITORS STILL TRUST THEIR OWN INSTITUTIONS.

The banking industry's public image has taken another beating, the *American Banker*'s annual consumer survey shows.

In light of some high-profile bank failures, the Bank Insurance Fund's depletion, and the continuing bailout of the thrift industry, the decline in public esteem is not surprising in itself. The number of people expressing concern about the financial industry's health and stability rose in 1991 for the third year in a row.

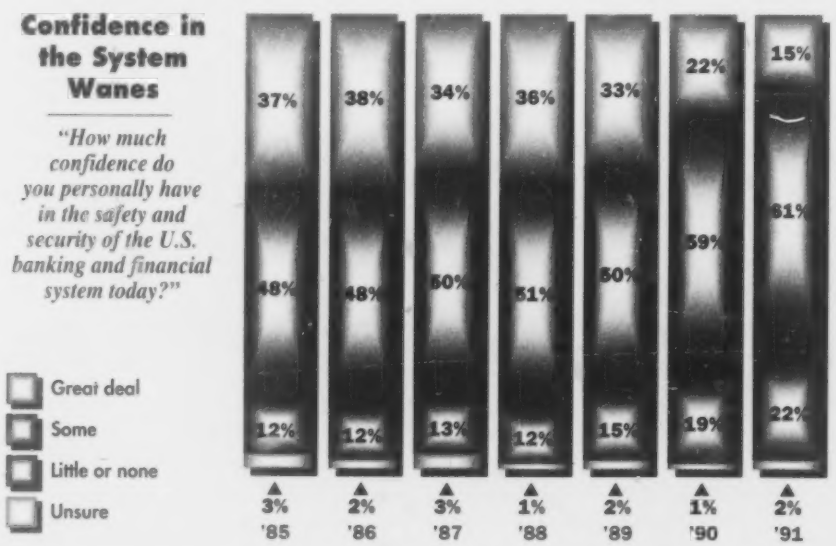
But the degree of skepticism took a decided turn for the worse, reaching by far its highest pitch since the annual surveys began in 1984.

Asked to describe the state of the U.S. banking and financial system, 14% of the 1,007 respondents called it "very unhealthy" and another 32% said "fairly unhealthy," for a total of 46%. They were almost even with the 51% who are still willing to rate the industry at least somewhat healthy.

A year ago, 35% said the system was "unhealthy" and 62% called it "healthy." Only in 1987 did the *American Banker* poll track a jump of simi-

Confidence in the System Wanes

"How much confidence do you personally have in the safety and security of the U.S. banking and financial system today?"



Source: American Banker/Gallup 1991 Consumer Survey

lar proportion in public uneasiness. Industry profits took a dive that year, and the "unhealthy" responses rose to 27% from 20%.

The *American Banker* survey was administered in May by the Gallup Organization Inc., Princeton, N.J. The 1,007 subjects, all holders of at least one account at a financial institution, were chosen at random and interviewed by telephone. The basic statistical margin of error is plus or minus three percentage points – meaning that the increase in "unhealthy" responses is significant.

Money Isn't Walking Out

Fortunately for most bankers, the public's sour mood has not translated directly into lost business.

"Whenever an article appears in the paper that centers on how unsafe things are, we don't notice withdrawals, but we do have phone calls for the next week or two," said Richard A. Loundy, president and chairman of Devon Bank, Chicago.

"People will say, 'Are you safe? Reassure us,' " he added.

"Our members are getting a lot more inquiries in their lobbies," said Joe Belew, president of the Consumer Bankers Association.

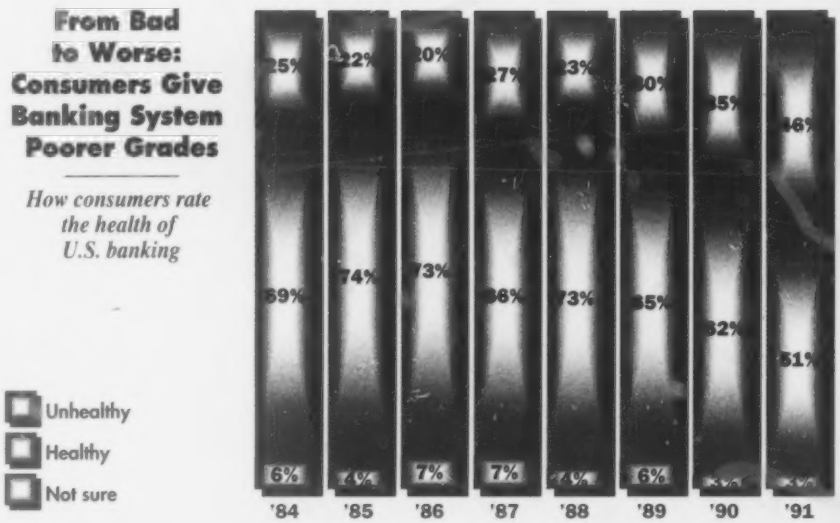
The Gallup interviewers also posed the question, "How much confidence do you personally have in the safety and security of the U.S. banking and financial system today?" The number who said "a great deal" fell to 15% in 1991 from 22% in 1990, and is well below the high of 38% in 1986.

The percentage saying they have little or no confidence, which hovered between 12% and 15% between 1985 and 1989 and reached 19% last year, shot up again to 23% this year.

Yet people's opinions of their own primary financial institution – bank, thrift, or credit union – have not suffered. In fact, they improved in 1991: 66% said they were "very satisfied" with their principal institution, five points higher than in 1990.

From Bad to Worse: Consumers Give Banking System Poorer Grades

How consumers rate the health of U.S. banking



Source: American Banker/Gallup 1991 Consumer Survey

The finding suggests that amid the disturbing news, depositors draw comfort from the health and survival of the vast majority of financial institutions.

There is no "silent run" on banks, Mr. Belew said, "but people want to know what's going on. The questions range from something as basic as 'Do you have deposit insurance?' to 'What are the [insurance coverage] rules on multiple accounts.' "

Doug Barnard, a former banker who serves as a Democratic congressman from Georgia, said a large reservoir of public trust offsets the bad news about industry problems. But he said the *American Banker* survey gives new urgency to reform efforts in Congress.

"If we could tell the public that, by relaxing some of the restrictive laws we have on the books, capital will be coming into the industry, the public would feel much better about the industry," Rep. Barnard said.

He also said the wave of mergers that has begun among large banks should buttress public confidence. "People believe the large institutions are safe," he said.

On the other hand, there remains a strain of populism that leads most people to prefer a bank with "community" characteristics. Two-thirds of survey respondents agreed with the proposition, "I prefer to do my banking at a smaller, local bank rather than at a larger bank."

'Confidence is Paramount'

O.J. Thomson, chairman of Citizens National Bank of Charles City, Iowa, said the opinions on industry soundness demonstrate how well the deposit insurance system works.

"Confidence in deposit insurance is paramount to public perception of our banking industry," he said. But in his town, he said, there is little indication of public concern over the health of the industry.

"There are not a lot of people out on the street who are really attentive to what is going on in Washington."

The *American Banker* survey results reinforce the widespread view in the industry that this is a poor time for Congress to fiddle with levels of insurance coverage.

"I fear that if there is any more of this, we will get to the point where outflows will begin to happen," said Mr. Loundry of Devon Bank." □

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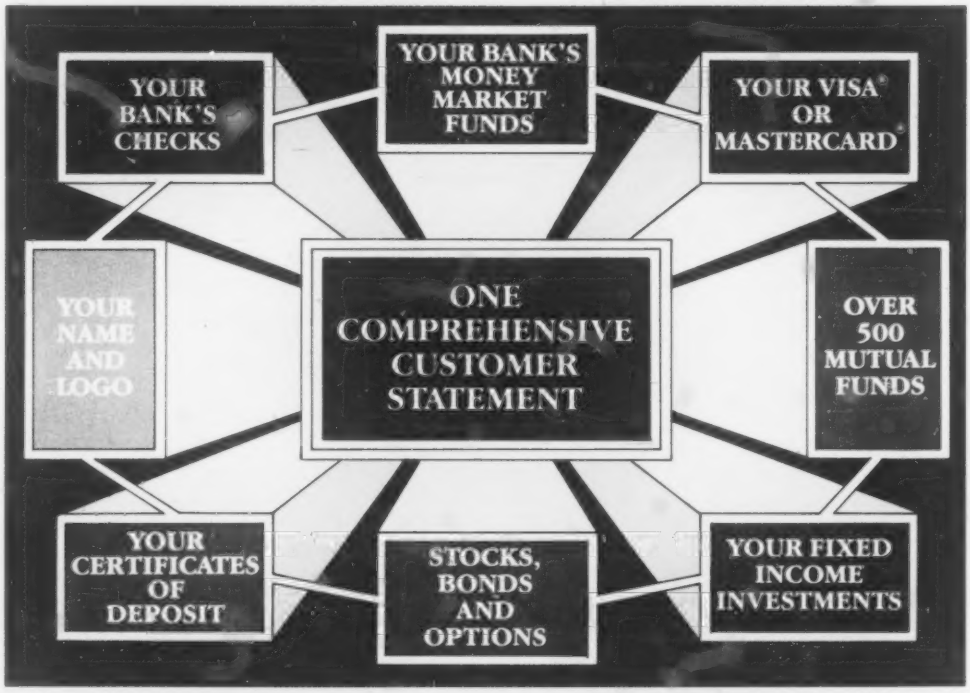
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Banks Tarred Along with S&Ls

But Public Sees Merits in Separate S&L Industry

By Robert M. Garsson

Commercial bankers were right to worry that their image could be tainted by the savings and loan scandals, the *American Banker* consumer survey indicates.

Of 1,007 people polled for *American Banker* by the Gallup Organization Inc., 59% agreed that the reported fraud in the thrift industry caused them to worry "about the honesty and integrity of those who are managing banks."

Only 18% disagreed with that proposition.

"We've been concerned since before [the 1989 thrift-reform legislation] that we would be painted with the same brush as the thrift industry," said Edward L. Yingling, executive director of government relations for the American Bankers Association, which represents commercial banks.

"The problem is exacerbated because so many thrifts call themselves banks now," Mr. Yingling added. "And then things like the BCCI affair don't help."

The Bank of Credit and Commerce International, at the center of the biggest bank scandal in recent memory, reportedly had ties to drug-trafficking and terrorist organizations and improper links to the domestic savings and loan industry.

Thrift Industry Endorsed

Even so, the good news for thrift executives is that the American people believe their industry is important and should continue distinct from banking. Fifty percent of those answering the *American Banker's* survey said it is important to maintain a separate industry; only 22% disagreed.

The percentage who "strongly agreed" that a separate S&L charter be maintained – 35% – is comparable to the 38% who strongly agreed that they should be wary of bank managers' integrity in the wake of S&L frauds.

In the congressional debate over banking reform, high on the agenda are proposals to merge the bank and thrift regulatory agencies. Many believe that step would hasten the demise of S&Ls as as separate industry. But some observers say public support for an independent thrift industry could hold such tendencies in check.

"We're not radioactive anymore," said Frederick L. Webber, president of the U.S. League of Savings Institutions, noting that lawmakers this year were willing to meet with his organization to discuss "mid-course corrections" in the 1989 bailout law.

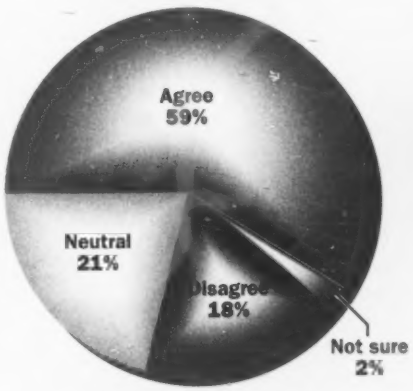
"I have had some very reassuring meetings" with legislators, Mr. Webber said. "They were listening to us, acknowledging that FIRREA went too far," he said, referring to the 1989 Financial Institutions Reform, Recovery, and Enforcement Act.

Meanwhile, the thrift debacle has also shaped legislation affecting commercial banks. Last year's crime bill, for example, included the "S&L kingpin" provision, which set stiff penalties for bank and thrift officers who run afoul of laws and regulations in their industry.

"Unfortunately, when they do these things for S&Ls, it also applies to us," said Mr. Yingling. □

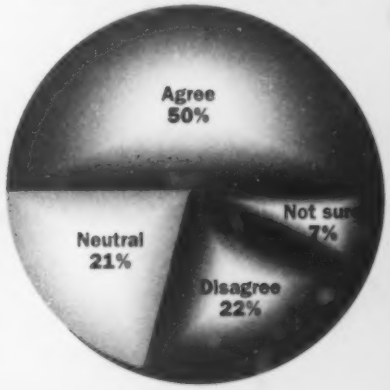
A Wary Majority...

"Because of S&L fraud, I am worried about the integrity of bank managements"



Wants to Preserve the Thrift Charter

"It is important to maintain a savings and loan industry separate from banks"



Source: American Banker/Gallup 1991 Consumer Survey

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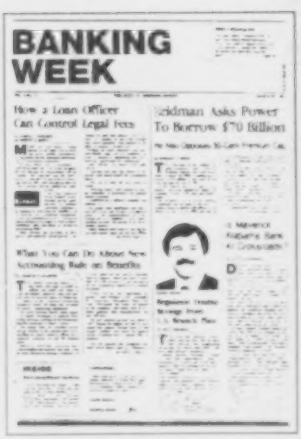

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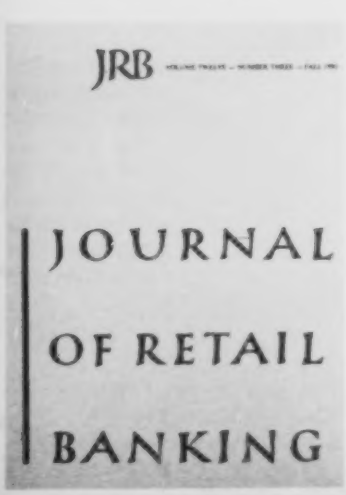

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Banks Chalk Up Better Service Score

By Mary Beth Libbey

FULLY 66% OF THOSE POLLED WERE 'VERY SATISFIED,' A FIVE-POINT GAIN OVER LAST YEAR.

Customer satisfaction with banks took a significant jump this year, according to the *American Banker* consumer survey.

In the survey, conducted for the newspaper last spring by the Gallup Organization, 66% of consumers said they are "very satisfied" with their principal financial institution. That was five percentage points better than in 1990 and 1989 and equal to the 1988 figure, which was the highest since the annual poll was begun in 1984.

But retail banking executives – who managed to improve the perception of customer service while the industry's public image has taken a pounding – are not yet satisfied.

Besides the 66% who are very satisfied are another 29% who said they are "somewhat satisfied" and 4% who are "unsatisfied." (About one-half of 1% were unsure).

Four percent is "above the curmudgeon level – the people you're never going to please," said Michael Marx, vice president and market research manager for Wells Fargo Bank, San Francisco. "Four percent means there are people who should be getting good service who aren't."

And banks and thrifts have a less satisfied clientele than credit unions, those increasingly thorny competitors whose customer satisfaction ranking recovered strongly in 1991 after at least two years of decline.

The percentage of credit union customers that are very satisfied shot up to 78% from 70% in 1990. The latter figure had dropped five points from 1989.

Commercial banks are also on a roll, increasing in the "very satisfied" measure to 65% from 60% in 1990 and 57% in 1989. Even thrifts, the most crisis-beset of financial institutions, recovered to 62% from 57% in 1990 and are almost back to their 63% reading of 1988.

These are among the findings from the *American Banker*'s eighth annual consumer poll. The Gallup Organization Inc., Princeton, N.J., administered the questionnaire by telephone in May to 1,007 randomly selected adults.

Service Improves for 20%

One in five said they had experienced service improvements at their primary institutions in the past year (though for credit union customers it was a significantly better 29%). But 9% (6% at credit unions, 10% at banks and thrifts) said service quality had declined.

Some bankers read these numbers as proof that they still have their work

Mary Beth Libbey is a freelancer writer based in Albuquerque, N.M.

cut out for them.

"Service can't ever be good enough," said Alan Silberstein, executive vice president at Chemical Banking Corp. He said his customers have given an 87% satisfaction rating "and that's not high enough."

By worrying about 4% of their customers being unhappy, bankers demonstrate a commitment that did not exist even a few years ago – and a recognition that competition has intensified.

Mr. Marx of Wells Fargo said that if he applied the *American Banker*-Gallup survey's finding to his own customers, 120,000 people would be dissatisfied, which is "potentially a lot of business to lose."

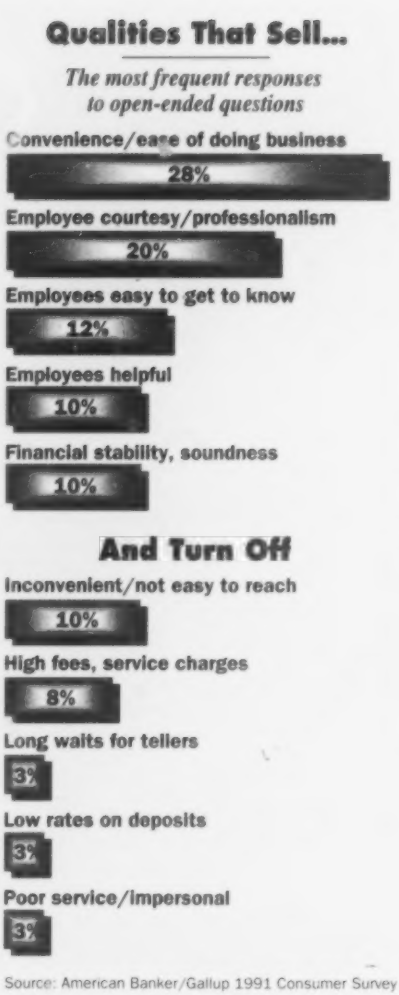
The customer service imperative is propelling marketing and management strategies. Round-the-clock customer service lines staffed by people as well as automated response systems, and elaborate customer service training programs are all products of the drive to improve service.

Products Recede

It began in earnest about three years ago as banks realized that product differentiation was of waning importance in a deregulated market. Service became the battleground and the focus of advertising campaigns in such high-powered retail markets as California and New York.

In fact, some industry insiders wonder whether customers' survey responses might reflect as much the advertising they see as their own experiences. "They may not necessarily be using the services themselves, but they see the advertisements," observed consultant Doug Smith, managing director of BEI Golembe's office in San Diego.

But most bankers believe customers are buying the steak and not just the sizzle. Convenient banking services are being used by huge numbers of people. Chemical takes 60,000 calls a day on its 24-hour service line.



Source: American Banker/Gallup 1991 Consumer Survey

The survey results seem to back up bankers' perceptions. Majorities or near majorities of respondents give their primary institution excellent grades in the following areas:

- Friendly and courteous staff, 65%.
- Statements are easy to understand, 52%.
- Helpful in solving problems, 49%.
- Fast and efficient service, 48%.
- Knowledgeable and professional staff, 46%.

Smaller percentages – up to 34% – gave banks excellent grades on competitive service charges and fees, paying competitive rates on deposits, charging competitively on loans, and making prompt loan decisions.

Reading between the lines, Mr. Silberstein of Chemical believes banks have not yet met the service challenge if consumers "are saying they don't think they're getting the quality service to justify the fees."

But Mr. Silberstein and others agree that the biggest change triggering a rise in consumer satisfaction has occurred in institutions' corporate offices, not on the teller lines.

Executives have made the decision to do continual surveys on image, service levels, and personnel quality. The information is getting out to the front-line people so they can adjust everything from their attitude to the way a parking lot is laid out or how signs are displayed in a teller line.

"We let our customers push us around," said Mr. Silberstein.

At First National Bank of Chicago, the market research function has been turned into a customer service function as well. Linda Cooper, who as vice president of consumer affairs is responsible for polling customers and employees on quality issues, said she not only gathers the numbers and opinions. The department often responds immediately to a complaint.

"The key is not just getting information but having the power to act on it quickly," Ms. Cooper said.

Word of Mouth

Ms. Cooper also questioned whether satisfaction is the true measure of a customer's happiness with an institution. Being willing to recommend the bank to a friend is a truer indicator.

Indeed, the *American Banker* survey showed the industry is doing well on this point: 81% said they would recommend their primary depository institution to a friend. And four out of five of the most frequently given reasons for the recommendations relate to the performance of employees. For example, 20% cited courtesy and professionalism.

Besides stepping up training programs, banks are devising quantita-

tive measures of personnel performance. They have installed automated systems that help employees concentrate on service rather than the mechanics of a transaction, and they are tying bonuses to customer satisfaction.

Security Pacific National Bank took existing quality standards one step further this year, said Terry Perucca, senior vice president of sales and branch support. Besides measuring a branch's appearance and the responsiveness of personnel, the bank asked customers what their expectations were about such matters as how fast a problem should be solved and how fast a loan should be approved and funded. Then it asked its branches and support departments such as data and loan processing whether they could meet those expectations.

Mr. Perucca said that the bank was meeting or exceeding most customer expectations, though there was room for improvement in some areas and the bank was doing too much in other areas. In all cases, the bank decided to use the customer's standard as a minimum.

Key Aspect of Retailing

He said such painstaking work is necessary if banks are to bring themselves up to the standards set by other types of retailers. The new standards will be factored in when it comes time to evaluate branch personnel for pay and incentives.

"If you look at a franchise operation like McDonald's, their [quality] scorecard is a lot more complex," Mr. Perucca said.

Automation is a key to banks' ability to provide cost-effective, round-the-clock customer service by phone. At Wells Fargo Bank, one of the first with a 24-hour service using live operators, it meant a "huge investment before implementation" in overhauling the computer system so service representatives could instantly call up on a screen a customer's account relationships and transaction activity, said Mr. Marx.

Branch staffing levels have also been revolutionized by the push to improve service. At Bank of America and Wells, more than 90% of tellers work part time, with assignments adjusted to traffic patterns.

At Wells, Mr. Marx said, it was the part-time program that allowed the bank to guarantee that a customer would see a teller within five minutes – or would get $5 credited to his checking account. "We couldn't have done it if we hadn't changed the way we hired and staffed" for peak times, he said.

Points for Convenience

Convenience-minded consumers seem to be the ones most satisfied with their banks, according to the survey. Of the two-thirds of consumers who said they are most satisfied, 48% are between the ages of 25 and 44. In comparison, consumers over 65 make up only 17% of the very satisfied customers.

"That may reflect that they [25- to 44-year-olds] are not as steeped in the old traditions of banking and have adopted the new conveniences," Mr. Perucca speculated.

Banks also seem to be making points with the most desirable customers. Almost one-third of those who were very satisfied earn between $40,000 and $75,000 a year, 35% earn between $20,000 and $40,000.

Bankers at large institutions who feel they still have a way to go before they give every customer the personal touch are right: More than 53% of all respondents said they prefer to bank at a smaller, local bank than at a large one. "People inherently prefer smaller," said Mr. Silberstein of Chemical. "As banks get larger they tend to get more systems oriented, and people feel a sense of coldness." □

"We let our customers push us around. Service can't ever be good enough."

ALAN SILBERSTEIN
Executive vice president
Chemical Banking Corp.

Public Is Open To New Products

By Judy Ferring

BANKS ACCEPTED AS A PROVIDER OF ALL KINDS OF INVESTMENTS AND PRODUCTS

Money market mutual funds look like the best opening gambit for banks that want to sell nontraditional investment services to their customers.

But there is also strong consumer acceptance of banks as sources of stock or bond mutual funds, life insurance, and annuities, according to the *American Banker* consumer survey.

Responses to the survey – completed in May by the Gallup Organization Inc., Princeton, N.J. – suggest it may be an opportune time to pursue a diversified "financial supermarket" strategy, long touted by some analysts as a way for banks to boost sagging revenues.

"People are always more comfortable [shopping for nontraditional products] at banks," said Robert F. Grieb, senior consultant with Baker, Rakich, Shipley & Politzer Inc., a consulting and research firm based in Berwyn, Pa.

About 70% of consumers said they would buy money market funds from their primary institution. The most receptive subgroup was women between the ages of 18 and 44, with incomes between $30,000 and $49,999.

An additional 58% chose stock or bond mutual funds, while 57% expressed an interest in annuities. Last on consumers' wish lists was life insurance, with only 39% of respondents saying they would probably buy it from their bank.

Judy Ferring is senior editor of Retail Banking Manager, *an* American Banker *newsletter.*

Familiarity a Factor

Mr. Grieb linked the hierarchy of preferences to consumers' familiarity with each of the products. Among the four products mentioned in the survey, a consumer is more likely to choose mutual funds because they have heard more about them, he said.

While the ranking cut across demographic lines, there was some correlation between the type of a consumer's primary financial institution and the level of acceptance for each product.

Among credit union members, for example, money markets were chosen by 74%, followed by stock and bond funds at 69%, annuities at 66%, and life insurance at 48%.

Seventy-one percent of bank customers said they would buy money market funds; 56% named the stock and bond funds; 57% annuities; and 35% life insurance.

Among thrift customers, meanwhile, 68% would buy money market funds; 54% stock and bond funds; 50% annuities; and 40% life insurance.

But no matter who was selling – or the product involved – there were some consumers who simply wouldn't buy from financial institutions. The

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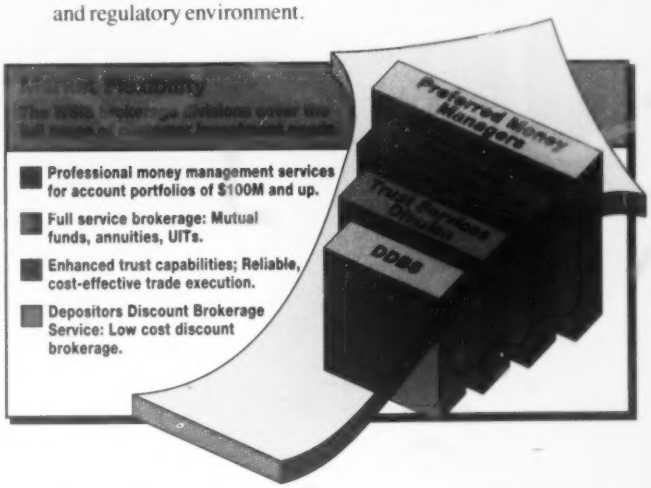
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"People are always more comfortable [shopping for nontraditional products] at banks."

ROBERT F. GRIEB
Senior consultant
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holdouts were usually older customers in higher income brackets, men, or people from the West. They usually named their stockbrokers and mutual fund companies as preferred providers.

Still, banks have an edge because those most likely to buy products cited in the survey are older, more well-to-do Americans – who are also most likely to cite banks as their primary financial institution, Mr. Grieb said.

But the age of investors interested in such products is changing, he warned.

"The age is coming down well into the 50s. It ain't 35, but it isn't 68 anymore."

Longer Time Horizons

As that age drops, he said, financial institutions will have to modify their marketing targets. Younger investors will be more risk tolerant and have more time to wait for an investment to pan out. They'll also be more likely to invest in equities, Mr. Grieb said.

Some banks are already seeking to tap that younger, less conservative market, according to Jerry Goldsmith, a principal of the Primary Group, an executive search firm in Longwood, Fla.

"This year, we've spent more time recruiting around annuities than mutual funds," Mr. Goldsmith said. While that may simply mean that financial institutions are more established and fully staffed in the mutual funds area, he speculated that it also indicates the beginning of shifts in the nature of the target market itself.

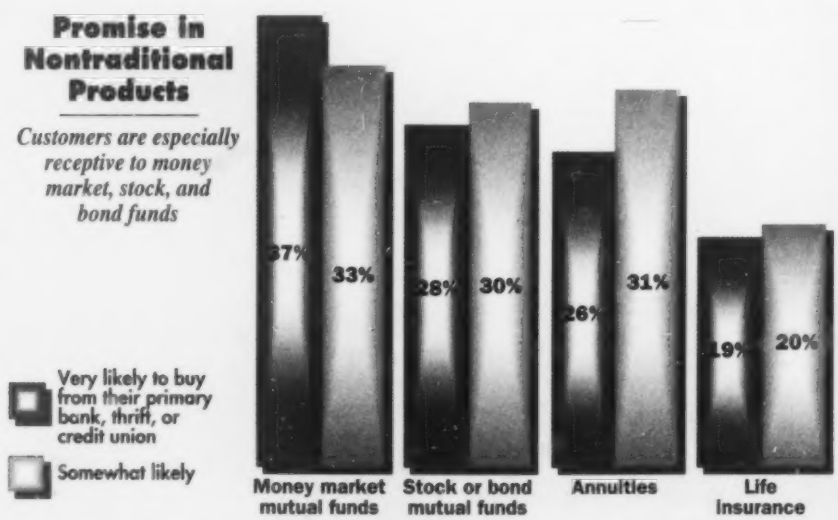
Young or old, luring customers from insurance companies should be relatively easy. Respondents who identified themselves as insurance firm customers said they were ready and willing to buy not just mutual funds and annuities, but even life insurance from banks, thrifts, and credit unions.

One reason, Mr. Grieb said, is that some consumers mistrust insurance salesmen. "People still react to that decades-old image of the insurance salesman as a hustler," he said.

Banks should take advantage of that attitude and demonstrate the benefits of annuities to their clients, Mr. Grieb said. □

Promise in Nontraditional Products

Customers are especially receptive to money market, stock, and bond funds



Source: American Banker/Gallup 1991 Consumer Survey

Credit Unions Bag Blue Ribbon for Service

By Lauryn Franzoni

CONSOLIDATION HAS RESULTED IN BIGGER, STRONGER COMPETITORS. TO BANKS

Credit unions' nonprofit status is not the only thing that should be getting the goat of competing bank and thrift executives. Credit unions also run away with the prize for customer satisfaction.

The percentage of consumers who are "very satisfied" with their primary financial institution is 66%, according to the 1991 *American Banker* consumer survey.

But the percentage of credit union customers who are very satisfied is 78%. And that figure jumped from 70% in 1990.

Banks and thrifts also showed gains, each growing five percentage points in the year to 65% and 62%, respectively. But they are playing catch-up with the generally small, member-owned credit unions, as they have since the *American Banker* began tracking customer satisfaction in 1984.

This year's poll, conducted in May, involved telephone interviews of 1,007 randomly selected adults by the Gallup Organization Inc., Princeton, N.J.

The survey showed that 76% of the population held at least one account at a commercial bank, 52% at a thrift, 43% at a credit union, and 43% at an insurance company. Smaller percentages were registered by mortgage companies, securities and mutual fund firms, and finance companies.

Commercial banks also controlled the largest number of "primary relationships," at 57%. Another 23% said a thrift is their primary institution, with credit unions at 12% and no other type of intermediary higher than 1%.

Quiet Consolidation

The credit unions' advantage in satisfaction – which may mean a true competitive edge in some markets or segments – is the result of years of evolution. Quietly, there has been consolidation: assets of credit unions were up to $237 billion as of May 31 from $215 billion a year earlier, while the number of institutions declined to 14,300 from 14,900. According to the American Bankers Association, there were more than 16,000 credit unions as recently as June 1988.

The mergers and acquisitions of smaller, less efficient credit unions has resulted in a bigger, stronger set of survivors.

In fact, 29% of the consumers surveyed said service quality had improved at their credit union in the past year. Only 17% of bank customers and 19% of thrift depositors said the same.

"As credit unions have gotten larger, they've had more resources for staff training and service quality programs," said Ralph Swoboda, president of the Credit Union National As-

Lauryn Franzoni is a freelance banking reporter based in Springfield, Mo.

sociation. "It's not just a function of credit unions doing better, but of banks doing progressively worse."

Customers Turned Off

Mr. Swoboda blames bank merger activity, staff layoffs, and aggressive pricing policies for the comparably greater rift between banks and their customers.

"Credit unions are also completing the transition from limited-service to full-service institutions," he noted. "Many more credit unions are offering a full range of consumer services and more credit union members now think of the credit union as their primary financial ins itution."

Most credit union executives say the reason so many users give them top grades is that they are owned by the members, are overseen by volunteer boards, and are focused on consumer financial services. There are no large commercial or international loans, and priority is placed on returning profits to the members as dividends.

"Yes, we're interested in earnings," said Paul Horgan, president of the IBM Mid America Federal Credit Union in Rochester, Minn. "But we're most interested in building capital to get us into the 21st century and beyond."

IBM Mid America is the third largest of IBM's 20 federally chartered credit unions. With $333 million in assets and 56,000 members across nine midwestern states, the credit union retained earnings of $27 million last year. Mr. Horgan said building customer satisfaction is based on "thanking them over and over again."

IBM Mid America uses monthly newsletters to members and its 60 teller windows to "stress friendliness and appreciation," Mr. Horgan said. Credit union managers have long found that "corny" actions can go a long way. Balloons, clowns, special promotional CD rates, and school-based programs are mainstays of corporate communications at Coast Central Credit Union, a $140 million-asset institution in Eureka, Calif. "Any service industry today is trying to distinguish itself," said marketing director Anne Davis.

For example, people who complete a Coast Central comment card receive an individual response even if they didn't ask for one. Ms. Davis says being responsive to member requests is what led the credit union to begin offering small-business accounts and limited commercial loans.

In an environment of sharply lowered interest rates, tight credit, and rising service charges, consumers said they are tired of being charged for bank services. Credit unions score higher than banks in almost every aspect of customer service. And they far outpace banks when it comes to competitive fees and service charges.

Among the commercial bank customers, 29% gave their institution excellent grades for charging competitive service fees, 25% for paying competitive interest rates on deposits, 24% for charging competitive loan rates, and 24% for making fast loan decisions.

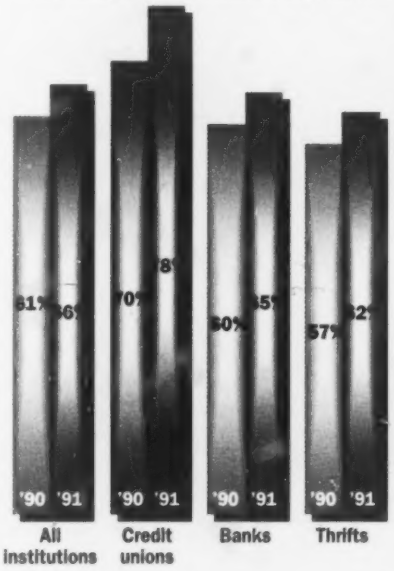
Credit unions score much higher on service charges (52%), deposit rates (42%), loan rates (46%), and prompt loan decisions (42%).

"It's real easy to figure out," said William Carner, a banking industry consultant and associate professor of marketing at St. Edwards University in Austin, Tex. "You're not messed with like you are at a bank. Credit unions don't spring fee increases. You can almost always get direct deposit, and it's not a hassle to get a loan from a credit union."

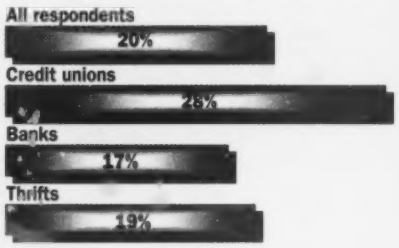
The one area where banks continue to have the competitive edge is convenience. Although 46% of customers said there was nothing they would change about their credit union, 22% said the credit union either had inconvenient hours or was not easy to reach. □

A Competitive Edge for Credit Unions

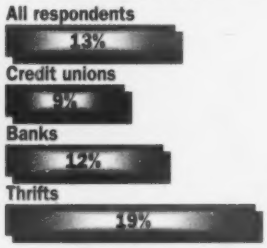
While the percentage of customers "very satisfied" has a taken a big jump...



Credit union customers are most likely to say service quality improved over the last year...



And least likely to be "very concerned" about safety of funds on deposit



Source: American Banker/Gallup 1991 Consumer Survey

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Free Checking Wins Popular Appeal

By Adam Levy

PUBLIC IS ADAMANT THAT A MINIMUM BALANCE SHOULD ELIMINATE FEES.

Concerned with the cost of banking services as much as any other consumer product, Americans have developed some firm ideas about what they are willing to pay. And when it comes to checking accounts, they don't like the idea of fees.

More than eight out of 10 people polled in the *American Banker's* 1991 consumer survey said financial institutions should not charge fees on checking accounts if a minimum balance is maintained.

"The survey sums up what we've been hearing from banks across the country," said Mary Buckner, vice president of FISI-Madison Financial, a bank marketing consultancy. "Consumers want hassle-free checking accounts, but they don't want to pay for them."

They clearly prefer the implicit charge of a minimum balance over explicit fees per month or per check. Eighty-four percent said it is important that a minimum balance preempt fees. Only 6% disagreed with that proposition, and 10% were neutral or had no answer.

Those percentages are based on responses by 1,007 randomly selected consumers in the survey conducted for *American Banker* in May by the Gallup Organization Inc., Princeton, N.J. The statistical margin of error is plus or minus three percentage points.

Many banks have taken advantage of new, sophisticated computer systems to offer myriad checking account features, which in turn raise the ante for competitors. Some accounts have evolved into elaborate packages, including such nontraditional adjuncts as credit cards with no annual fee, buyer protection insurance, merchandise discounts, travel discounts, and even health care benefits.

The 'Salad Bar Effect'

"We call it the salad bar effect," Ms. Buckner said. "With the salad bar, the consumer picks out whatever satisfies his or her appetite. But of course, everybody always starts out with lettuce. And in the checking business, the lettuce is no fee."

To make no-fee checking work, Nashville-based FISI-Madison recommends that banks mandate at least a $100 minimum balance, with a penalty assessed if the balance declines below that level.

"Obviously, the high activity/low balance account is the most costly to a bank, and the $100 balance requirement provides the minimum barrier and the perception that the account is

Adam Levy is a banking and finance writer for the Tampa Tribune, Tampa, Fla.

"Consumers want hassle-free checking accounts, but they don't want to pay for them."

MARY BUCKNER
Vice president
FISI-Madison Financial

still free," Ms. Buckner said.

But according to the *American Banker*-Gallup survey, minimum balance requirements are usually much higher than $100. Respondents said the median minimum balance is $500, and the mean, or average, $644.

Almost one in five, or 18%, didn't even know what their minimum balance requirement is.

But bankers think long and hard about those balance requirements.

"We don't try to solicit demand deposits by giving away free checking," said N.W. "Red" Pope, senior vice president of marketing at Valley National Corp. in Phoenix. "We have established a reasonable minimum balance of $500. That's our threshold for turning profits, but we don't turn much of a profit at $500."

Balance requirements may be palatable to consumers because many of them have become accustomed to getting interest on their checking balance. Eighty-three percent in the survey said interest is an important feature of a demand deposit account.

"Unless you have a mandated minimum, there's no way you can justify the costs of paying interest," said Robert Hutchinson, senior vice president for retail banking at Manufacturers Hanover Trust Co., New York. He also said that as profit margins have shrunk, banks have been steadily raising balance requirements.

But higher balance requirements have been made easier on the consumer through relationship banking, in which the sum of all balances – checking, savings, individual retirement accounts, etc. – can be applied toward the qualifying minimum.

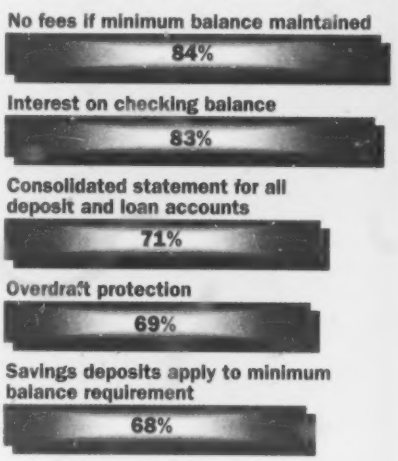
That idea was deemed important by 68% of those in the *American Banker* poll.

Mr. Hutchinson said that nearly every major-market bank has adopted relationship pricing for free or interest-bearing checking.

John Perkner, director of product development at Barnett Banks Inc. in Jacksonville, Fla., said relationship banking is a marketing tool that can

The Ideal Checking Account

Features desired by 1,007 respondents (percentage rating each feature important)



Source: American Banker/Gallup 1991 Consumer Survey

be offered in different forms to target customers with different needs.

"The crux of our relationship banking is trying to tailor checking products based on market segmentation," he said. "Of course, across the board most people want the same thing: no fees and high interest."

Wide Variety of Needs

Beyond the objections to fees and the preference for interest, consumers' needs vary widely. Mr. Perkner said Barnett has been packaging different low-cost, interest-bearing checking products for years and is preparing to launch another aimed at smaller depositors. In October, Barnett expects to launch a no-fee, no-interest checking account for people with $1,200 in savings.

"We're constantly fine-tuning our minimum balance levels to be able to tap the most consumers," he said.

John J. McGuire, an executive vice president of marketing with SunBanks in Orlando, Fla., also recognizes the value of relationship banking as a market segmentation tool. His organi-

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"Across the board most people want the same thing: no fees and high interest."

JOHN PERKNER
Director, product development
Barnett Banks Inc.

zation offers several different checking accounts and has "more in the pipeline."

"What we're trying to do at SunBanks is offer a broad spectrum of checking account products because different market niches want different services," he said.

SunBanks' Portfolio Banker, for example, requires a $20,000 minimum combined balance, but comes with no-fee checking, a high "Super Now account" interest rate, no-fee gold credit card, access to a personal banker, and discount brokerage.

Packages for Seniors

In keeping with the national trend toward packages for older consumers, SunBanks offers Sun Horizons, "which involves no service charges on checking, because people over 55 hate service charges," Mr. McGuire said.

Ms. Buckner of FISI-Madison agreed that senior citizens do not like service fees and very much like earning interest – though the survey results did not show any statistical difference on these preferences between people over 55 and the general population.

"The mature market, aged 50 to 64, is the highest income bracket of any age group," Ms. Buckner pointed out. "They're either used to earning interest or more interested in earning interest because they recently retired. So we recommend that banks pay interest, but they can raise the minimum requirements quite high. The average balance nationwide for this age group is $3,500," she said.

Comprehensive Statement

While consumers' overriding concern may be the cost of, and interest earned on, their checking accounts, 71% of them also place some importance on having a single consolidated statement showing the status of all their accounts at the bank – transaction, savings, loans, credit cards.

Mr. Hutchinson of Manufacturers Hanover said he spends a lot of time refining the statement.

"Improving our statement is of critical importance, because consumers constantly tell us they want more information in a more user-friendly format," he said.

Mr. McGuire said SunBanks is also on the cutting edge in creating and offering innovative, user-friendly statements. "Our summary aims to give information you can't typically get on an account statement. We'll print out the interest rate on your certificate of deposit, the balance on your credit card, and mortgage loan information, like the next due date and how much interest has been paid."

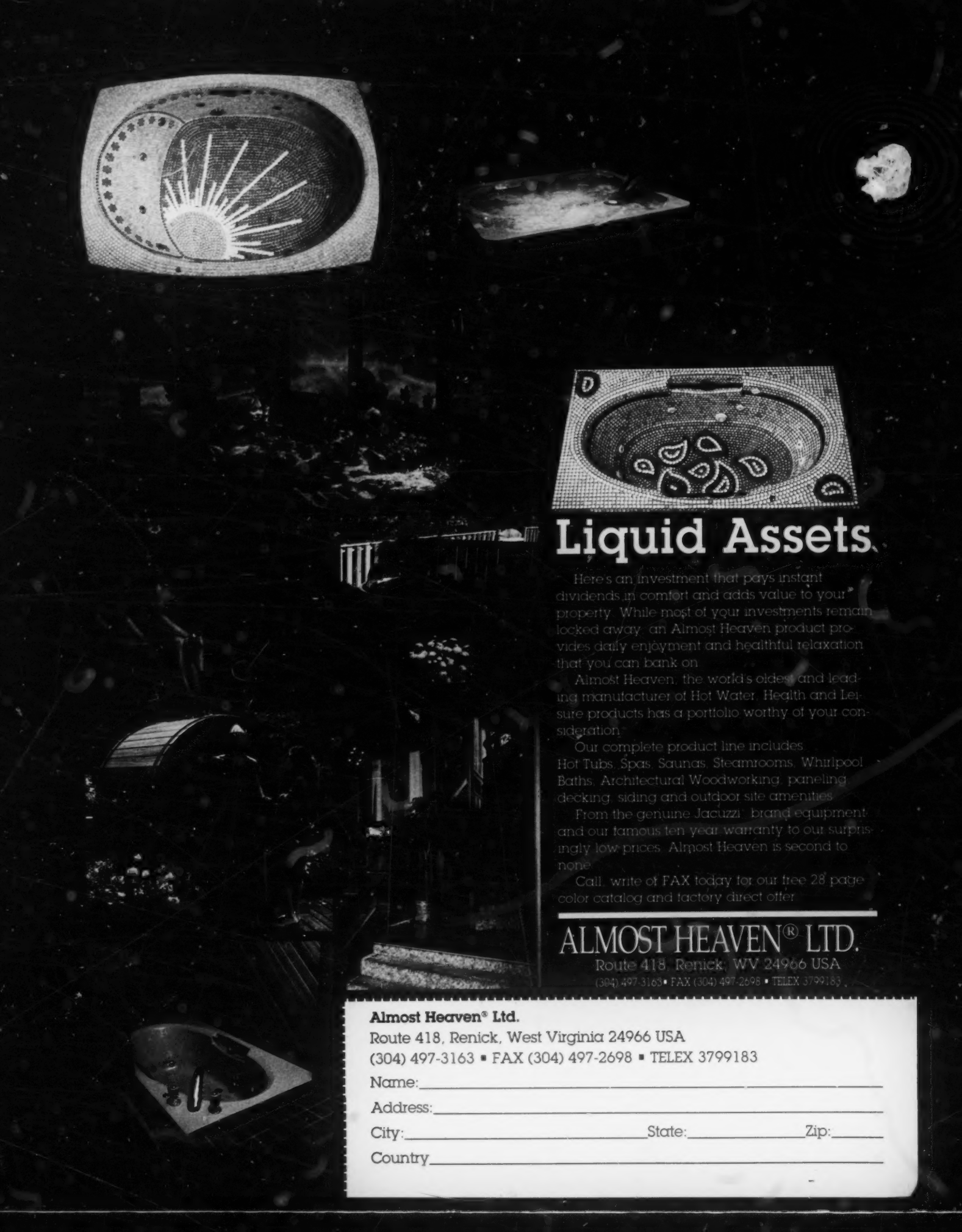
Valley National, by contrast, does not place consolidated statements high on its list of priorities. "Our research shows that people aren't clamoring for it, and they sure don't want to pay for it," said Mr. Pope. "We'll ultimately put out consolidated statements, but it's not one of our most pressing concerns."

Overdraft Protection

Among other checking features that are popular is overdraft protection. It doesn't have the 84% support of minimum balance/no fee, but at 69% it has major appeal. The preference for the overdraft service trailed off with age: 75% of those 25 to 34 and 77% of those 35 to 54 deemed it important, compared with 62% between 55 and 64 and only 49% of those 65 and older.

"We see a lot of demand for overdraft protection," Mr. Pope said. But last year's trend – started by Valley National – of providing buyer protection insurance and extended warranties on goods bought with checks seems to be fading, bankers said.

"We sat on the sidelines and watched others test that product," said Mr. Perkner of Barnett. "Expenses began to rise, limitations arose, and the appeal just vanished. In retrospect I'm glad we avoided it, because it was just a fad." □



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Savings Ethic Becoming Stronger

By Judy Ferring

HALF THE PEOPLE WOULD WELCOME AN AUTOMATIC MEANS OF PUTTING MONEY AWAY.

Bankers seeking to attract consumer deposits have the public mood on their side.

Half the respondents to the *American Banker*'s 1991 consumer survey "strongly agreed" they are trying harder to save than they were a year ago. Another 15% were in less emphatic agreement, bringing the total to 64%.

Meanwhile 47% reacted positively to the idea of an automatic savings plan as a means of discipline.

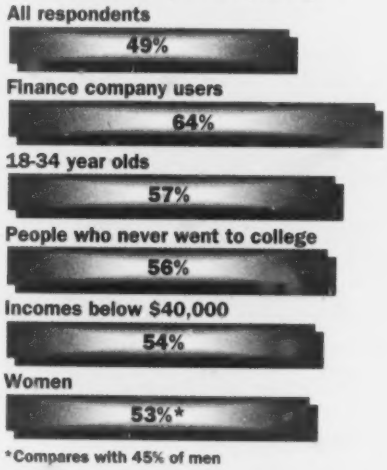
The results, derived from 1,007 random telephone interviews conducted in May for *American Banker* by the Gallup Organization Inc., reflect a shift in public values toward savings and away from credit.

Four out of five in the poll agreed with the statement "consumers have taken on too much personal debt." Almost two out of three "strongly agreed" with that statement.

Ironically, the savings ethic is taking hold in – and is fueled by – a slow economy in which financial institutions' demand for funds is slack and interest rates on deposits are low.

Who Is Trying to Save More?

Percentage who strongly agree with statement that they are "trying harder to save money than a year ago"



*Compares with 45% of men

Source: American Banker/Gallup 1991 Consumer Survey

Less Affluent Are Saving

Pressures from the slow economy no doubt have much to do with the renewed interest in saving. When researchers from the Gallup Organization interviewed 1,007 heads of household this spring for the annual American Banker consumer survey, they found the urge to save strongest among those most likely to be feeling the pinch: young adults, women, and those without college degrees. Most (54%) had annual incomes below $40,000.

The urge to save was strongest among less established or affluent demographic groups such as 18- to 34-year-olds, people who never attended

college, and people with incomes below $40,000.

Among borrowers from finance companies, which tend to serve lower-income people, 64% "strongly agreed" that they are trying to save more this year – the highest figure of any segment defined in the *American Banker*-Gallup survey.

Among women, 53% were in strong agreement with the savings notion, significantly higher than the 45% of men in the same category.

Equibank in Pittsburgh saw the sex differential in its own research. The bank began to aim its marketing at women after it found they often controlled households' finances in the heavily blue-collar Pittsburgh area.

Response to the bank's "Dollar for Dollar" program exceeded expectations when it was launched three years ago, and money is still flowing in, said Equibank spokeswoman Joyce Stumpf. The program promises "big deposit interest for small deposits": $50 a month saved for the maximum 17 years (minimum is seven years) would yield $20,982 – $10,200 from the consumer and $10,782 in bank interest.

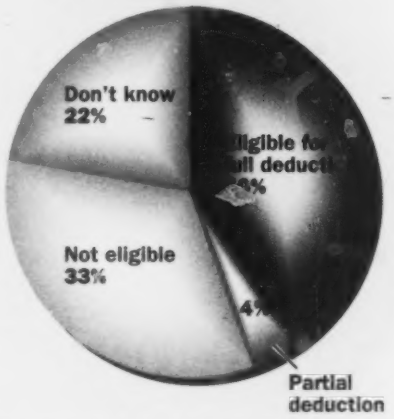
Women 18 to 34 have been more interested in saving than men of the same age, according to Melvin Prince, market researcher and associate professor of marketing at Fordham University in New York. Studies show that "females are freer to seek present gratification through spending [yet are] more security oriented in money handling." What's more, Mr. Prince said, women are usually more receptive than men to advice about money matters – a perfect audience for the unfamiliar features in many automatic savings products.

In focus-group interviews by Security National Bank in Sioux City, Iowa, young householders said that although they recognized the importance of saving money, they needed help.

Judy Ferring is senior editor of Retail Banking Manager, *an* American Banker *newsletter.*

Confusion Over IRAs

40 percent of consumers have an individual retirement account, but one-fifth of that group is unsure of eligibility for tax deduction



Source: American Banker/Gallup 1991 Consumer Survey

The bank responded last fall with its SOS (Serious About Savings) account, aimed initially at households earning between $25,000 and $50,000.

For a minimum $25 deposited per month, the account pays 5% interest until the balance reaches $500, then it pays 5.25%. Security National pays 4.5% on its regular savings account and 5.5% on its money market account.

Each SOS saver works out a customized savings plan with the help of a Security National banking representative, including the target amount, the reason for the savings plan, such as home down payment or vacation, and the amount that will be put away each month.

The account has had strong, steady response from the beginning, even when not heavily advertised, said product manager Brenda DeWitt. In fact, a special tax-season promotion to holders of Security National's low-fee checking account produced another surge in SOS account growth.

Most SOS savers set aside $75 to $100 a month, sometimes in weekly installments.

If pushed, some might be able to put more away, according to another Gallup survey, which the polling organization conducted for Bank Advertising News. It found that American savers were setting aside an average of $289 a month, and 18% were saving $400 a month. Another 33% believed they could save $400 if they made the effort.

Really startling, said Carole Hewitson of Gallup's financial research division, were the income levels of those who thought they could hit that mark if they tried. Twelve percent with annual incomes under $20,000, 34% with incomes between $20,000 and $59,000, and 65% with incomes above $60,000 a year thought they could save $400 a month.

IRAs Still Popular

The urge to save is apparently so strong that individual retirement accounts have lost little of their luster despite their reduced eligibility for income tax deductions.

Forty percent of respondents to the *American Banker*/Gallup survey said they had IRAs, and 62% of that group said they were still adding to the accounts regularly. But 35% said that either their accounts are inactive or they plan to close them, and 22% did not know if they were still eligible for tax deductions.

The strongest commitment to IRA investments is in the upper income brackets. Gallup reported that 52% of households with annual income over $75,000 planned to keep adding as much as they can each year.

Savings accounts and programs can be a key to loyal, long-term customer relationships. According to a recent savers' survey by the Financial Institutions Marketing Association, Chicago, 35.8% said they considered their primary financial institution to be the one holding their savings.

And 68% of the 2,990 in the survey said they had stayed with the provider of their savings accounts for more than five years. □

Tax Break Helps Sell Equity Loans

Deductibility Is More Compelling for the Well-to-Do

By Judy Ferring

Nearly three-quarters of all consumers cited the tax deductibility of home equity loans and lines of credit as an argument in their favor, the *American Banker*'s annual consumer survey shows.

But the responses were markedly skewed according to income. The tax advantages of equity-secured credit were a "very strong" advantage for 69% of consumers with household incomes of at least $75,000. But only 21% of those with incomes under $20,000 found the tax factor compelling.

Overall, 47% of homeowners said they thought the deductibility of home equity loans was a very strong argument in their favor. Another 27% found the argument "somewhat strong."

Those findings are based on responses by 742 randomly selected consumers in the survey conducted for the *American Banker* in May by the Gallup Organization Inc., Princeton, N.J.

To reap the tax advantages of an equity loan, a consumer must itemize income tax deductions. But only about one in five people do, most of them in higher tax brackets.

Equity loans are one of the few forms of consumer debt to retain tax deductibility. Many banks are underscoring that point, marketing equity loans as a way to consolidate nondeductible debts.

But some experts say banks could be making more headway among customers in lower tax brackets by touting the loans as a relatively inexpensive source of funds.

"It's still a good idea if you need the money," said Stuart Feldstein of SMR Research in Budd Lake, N.J. "Credit cards are at prime plus 10%, auto loans at prime plus three, unsecured lines with check access at prime plus seven."

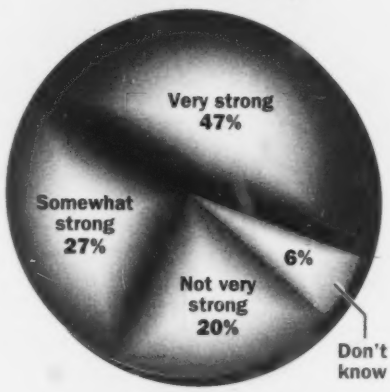
Historically, that fact has not been lost on consumers. "This was already the fastest-growing segment before tax reform," said Mr. Feldstein.

After a slowdown in 1989 and 1990, regulatory filings show that the market is surging again. Banks' and thrifts' sales of home equity loans in the first quarter of this year rose 15%. Finance companies and credit unions are also providers of equity loans.

In recent years, the market potential for home equity loans has been helped by weakness in the residential housing market. The reason: Consumers who want to sell their present home and move up to a larger one often can't find buyers. Instead, they are taking out equity loans for home improvements.

A Tax Deduction that Attracts

Of 747 homeowners in survey, most find tax policy a persuasive argument for home-equity borrowing



Source: American Banker/Gallup 1991 Consumer Survey

Low Delinquency Rates

Some observers fear that the availability of equity loans might entice consumers into overextending themselves. But delinquency rates for these kinds of loans are significantly lower than for other types of consumer credit, according to recent regulatory filings.

In the first quarter of 1991, just 0.83% of equity-line payments were delinquent, according to SMR. Banks were required to file such delinquency rates beginning in March.

The figure is "amazingly low," compared with the 1.72% delinquency rate on other home mortgages and a rate of 1.9% on general-purpose credit cards, Mr. Feldstein said. The contrast is heightened by the fact that – in dollar volume – the home equity market is about double that of credit cards.

Comparing chargeoffs was equally amazing: Banks lost only 0.04% of outstanding home equity balances for the quarter. The rate of loss on nonmortgage consumer loans for the same period was nearly nine times higher, Mr. Feldstein said. □

Judy Ferring is senior editor of Retail Banking Manager, *an* American Banker *newsletter.*

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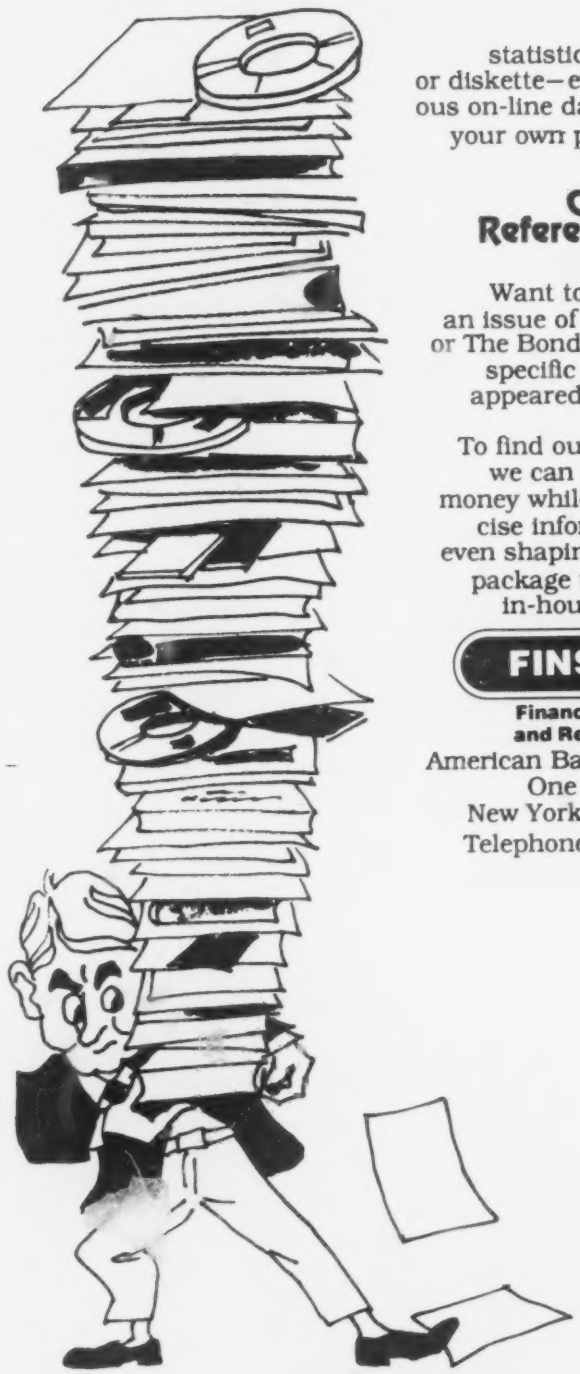

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Credit Bureaus Come Under Fire

By Robert M. Garsson

HALF OF THOSE POLLED WORRY ABOUT THE ACCURACY OF DATA ON FILE.

Consumer advocates, state attorneys general, and some members of Congress hit a favorite target of consumers this year when they launched attacks on the credit reporting industry, the *American Banker* consumer survey suggests.

In a show of frustration with the organizations that compile credit histories of borrowers, nearly half of the consumers polled said they are concerned that the information in their files is inaccurate.

"That jibes with our own study," said Michelle Meier, government affairs counsel for Consumers Union, the publisher of *Consumer Reports* and a vocal critic of the credit-reporting giants Equifax, TRW Inc., and Trans Union Corp.

In that study, which was released in April, 48% of the credit reports reviewed by Consumers Union staff contained errors. The public reaction to the study indicates that people are angry about credit bureau errors, Ms. Meier said.

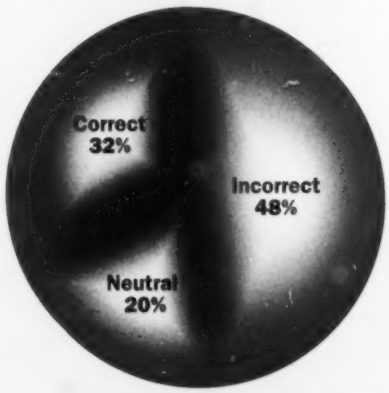
"We hear from people who didn't just have inaccuracies in their records, but who were having problems with getting it cleared up," she said.

The credit bureaus take sharp exception, and contend that the response in the *American Banker*'s survey was influenced in large part by negative publicity, such as press accounts of the Consumers Union study.

"I would say those responses represent surmises based on the Consumers Union study, rather than actual experience," said John Ford, assistant vice president at Atlanta-based Equifax.

A Perception of Inaccuracy

Consumers' views of data pertaining to them in credit bureaus' files



Source: American Banker/Gallup 1991 Consumer Survey

Differences of Opinion

Mr. Ford said the number of errors contained in credit files isn't known, and some of the items that consumers argue are erroneous in fact represent differences of opinion between creditors and borrowers.

"We do all we can to ensure that the information is accurate, but until the

consumer tells us there is a mistake in the file, we have no way of knowing," he said.

In the wake of the Consumers Union publicity, which coincided with a consumer protection lawsuit filed against TRW by several states, TRW and Equifax set up toll-free customer service telephone numbers and Equifax simplified its reporting forms to make them more understandable to consumers checking on their files.

Widespread Concern

The *American Banker* survey shows that concern over mistakes in credit files is widespread. Among 1,007 financial institution customers polled – of which 87% hold at least one bank or nonbank credit card – 48% said they were concerned about the accuracy of their credit reports. A majority of this group, 35% of the total respondents, "strongly agreed" on this point.

There was no significant variation by region or socioeconomic status, suggesting that it is not only the financially squeezed or a suspicious minority that is worried about credit bureaus.

The poll was conducted in May by telephone. the Gallup Organization Inc., Princeton, N.J., worked with the *American Banker* on the survey design and administered the questionnaire.

The concern that showed up about credit reporting appears to be part of a larger right-to-privacy movement, which will probably make it increasingly difficult in the future to conduct telemarketing campaigns or target households with preapproved credit offers.

Sale of Information Alleged

Alleged credit-reporting abuses prompted Robert Abrams of New York and other state attorneys general to file suit against TRW, one of the three top suppliers of credit data.

The states charged, among other things, that TRW sold confidential information to direct marketing companies. States that have joined in the suit are Alabama, California, Idaho, Michigan, and Texas.

TRW, which disputes the charges, is asking courts in New York and Dallas to dismiss the suits.

The House Banking Committee's subcommittee on consumer affairs began work on legislation that would impose new controls and consumer safeguards on the credit reporting agencies.

Although the legislative effort is aimed primarily at the credit bureaus, bankers can expect to be affected as well. In particular, credit card mailings could be hamstrung by safeguards that the subcommittee chairman, Rep. Esteban Torres, D-Calif., plans to include in the bill.

Bypassing Customers

In offers of preapproved credit cards, bankers typically use a screening process. Because the current law prohibits credit checks without the permission of the borrower, banks ask credit bureaus for lists of consumers that meet certain criteria – an indirect method that avoids the need to obtain written authorizations from individuals.

But before a credit card is issued, a second check is usually conducted to make sure that the prospective borrower's financial situation has not changed.

Mr. Torres believes the two-pronged screening process may violate an individual's right to financial privacy. His reasoning goes well beyond the application of screening to credit card solicitations. Mr. Torres, a onetime union official, is concerned that credit bureau screenings might be used by employers to weed out workers who have filed complaints for unemployment compensation in the past. □

"We hear from people who didn't just have inaccuracies in their records, but who were having problems with getting it cleared up."

MICHELLE MEIER
Government affairs counsel
Consumers Union

Visa Remains Top Card Brand

By Yvette Kantrow

HEAVY AD SPENDING BY VISA HELPS KEEP MASTERCARD, DISCOVER AND AMERICAN EXPRESS AT BAY

Visa seems in no danger of losing its status as the leading American credit card brand, according to the *American Banker* consumer survey.

Despite aggressive competition from the likes of American Express and the Discover card, Visa this year strengthened its claim to being the most frequently used card.

MasterCard remains second in market share but is not growing nearly as fast as Visa.

The findings are based on the *American Banker's* eighth annual consumer poll, administered this year by the Gallup Organization Inc., Princeton, N.J. Gallup conducted 1,007 interviews with heads of households that have one or more accounts with a financial institution. Seven of eight respondents had a credit card of some kind, and three out of four had at least one bank-issued MasterCard or Visa.

Visa is clearly the most popular brand. While 61% of the respondents hold Visa cards, 37% of cardholders said they use Visa most frequently.

The figures for MasterCard are 50% and 23%, for American Express 24% and 8%, and for Sears, Roebuck and Co.'s Discover card 23% and 5%.

Over Half Use Visa Most

Looked at another way, 53% of Visa holders use Visa the most, compared with 40% of MasterCard holders, 31% of American Express charge-card holders, and 18% of Discover holders.

Retail store cards, if considered a single product, are actually the most popular, held by 70% of consumers. But only 16% said a retail card is the one they use most frequently.

Visa's penetration of total households, up to 61% this year, maintained an 11-percentage-point lead over MasterCard that also showed up in the 1988 and 1990 *American Banker* surveys. But Visa's lead as most frequently used widened to 14 points this year from 11 in 1988 and 1990.

Observers attribute Visa's dominance to its advertising and marketing campaigns.

"It speaks directly to the power of Visa ads over the past few years," said Donald Auriemma, a card industry consultant based in Garden City, N.Y. "Today both MasterCard and Visa are strong in advertising, but for a few years Visa had a distinct advantage."

Ad Budget Doubled

Frequency of use is an important measure of success in today's competitive credit card environment. Gone are the days when getting a card into a consumer's wallet resulted in instant revenue. With more and more banks waiving annual fees to make their cards more attractive, it becomes increasingly critical to generate usage.

Visa shelled out $49.9 million in

1990 to buy advertising time and space for its card products, according to Leading National Advertisers Inc. Those dollars represent 14% of the $347 million spent by the card industry as a whole and more than twice as much as the $26.8 million Visa spent in 1989.

Visa also considerably exceeded the $40.5 million in media buys made in 1990 by MasterCard International.

Visa's umbrella marketing campaigns were believed to be stronger than MasterCard's in much of the 1980s, leading many issuers to promote Visa more heavily, industry observers said. It was an aftereffect of the huge promotional campaigns in the 1970s surrounding Visa's name change from BankAmericard.

"The MasterCard/Visa split is more a function of the provider – the banks – than it is of the consumer," said Anne Moore, president of Synergistics Research Corp., Atlanta. "MasterCard will now begin to narrow that gap."

MasterCard's improvement is due in part to a 1990 advertising campaign that positions MasterCard as the card for Middle America. MasterCard is also expected to pick up more cardholders because of its membership policies. MasterCard is perceived as more receptive to nonbank members than Visa. Recently, Visa extended until October a moratorium that prohibits nonbanks from joining.

Others Vying for Share

Also competing for a share of the consumer's wallet are American Express' platinum, gold, and green charge cards and its Optima revolving credit card; Sears' Discover card; and a bevy of retailer and gasoline company cards.

According to the 1991 *American Banker* survey, charge cards issued by American Express Travel Related Services Co. are carried by 20% of the public, while Optima is in the hands of another 4%. The company's 24% total market penetration is comparable to Discover's 23%.

Although American Express' market share isn't the largest, its ad budget certainly is. The New York-based company spent $106.7 million on card advertising last year. Although that was down from the $123.8 million it spent the previous year, it accounted for close to one-third of the industry's media purchases. □

Observers attribute Visa's dominance to its powerful advertising and marketing campaigns.

Still No End to Credit Card Growth

Virtually all card brands continue to increase market penetration...

	'88	'90	'91
Retail store cards	NA	63%	70%
Visa	53%	56	61
MasterCard	44	47	50
Oil company	NA	38	39
American Express*	21	22	24
Discover	19	23	23
Diners Club	3	3	3

Percentage of total households
*Includes Optima (1% in 1988, 2% in 1990, 4% in 1991)

And Visa widens lead as the card most frequently used

	'88	'90	'91
Visa	34%	31%	37%
MasterCard	23	22	23
Retail store cards	NA	15	16
American Express*	7	7	8
Oil company	NA	12	7
Discover	4	5	5
Diners Club	NA	<1	<1

Percentage of cardholding households
*Includes Optima (less than 1%)

Source: American Banker/Gallup 1991 Consumer Survey

Consumers Still Hungry for Plastic

AT&T's Card Heightened Awareness of Products

By Yvette Kantrow

One of every five households that already had a credit card acquired at least one more in the past year, according to the *American Banker* consumer survey.

And one of every five of the new additions are AT&T Universal cards.

The findings suggest that recent reports of the credit card market's oversaturation are somewhat exaggerated. Not only are consumers adding to their credit card portfolios, many are switching their allegiance from one card to another.

The nationwide poll, conducted for the *American Banker* by the Gallup Organization Inc., found that half of all new accounts were opened by consumers who cut up one card to obtain another. Industry analysts suspect that this group of consumers is largely responsible for the rapid gains of the AT&T card in its inaugural year.

Since there are relatively few creditworthy consumers who do not already own their fair share of cards, new competitors such as AT&T are increasingly seeking to snare consumers in search of a better deal.

Annual Fee Waived

Charter subscribers to the AT&T card were promised they would never have to pay an annual fee. The card comes in MasterCard and Visa versions issued by a unit of Synovus Financial Corp., Columbus, Ga.

"The no-fee offer has been the impetus for people to switch," said Anne Moore, president of Synergistics Research Corp., Atlanta. "And AT&T made it very easy for people to apply. If you are going to switch, it has to be easy to do."

Consumers are able to get an AT&T card application by dialing the operator on their telephone. AT&T consistently drove home that point in an advertising blitz aimed at gaining quick acceptance. According to Leading National Advertisers Inc., the company shelled out $33 million last year for advertising time and space for its Universal card – only $7 million less than MasterCard International.

About seven million people had obtained the AT&T Universal card – which can also be used to charge long-distance calls – by the end of last year. The first million accounts were opened within 78 days of the product's introduction on March 26, 1990.

"AT&T's no-fee offer has been the impetus for people to switch. And AT&T made it very easy for people to apply. If you are going to switch, it has to be easy to do."

ANNE MOORE
President
Synergistics Research Corp.

Struggling to stay competitive, other issuers quickly revised their annual fee policies. Soon consumers were bombarded by advertisements touting lower or no fees, and people slowly educated themselves about the costs of credit cards they had.

As a result, people became increasingly willing to cut up one card in favor of another.

The *American Banker*-Gallup survey also demonstrates that last year Visa picked up more new cardholders than MasterCard and Sears, Roebuck and Co.'s Discover card did. Twelve percent of card owners said they obtained a new Visa card during the past year, while 8% said they got a new MasterCard. Only 2% acquired a new Discover card.

Most of the new MasterCards and Visa cards were issued by commercial banks, the survey shows. Fifty-four percent of respondents said they got their cards from a bank, not including the 21% who cited AT&T as their issuer. Eight percent went through a credit union, and 3% got new MasterCards or Visa cards from thrifts.

Americans carry a total of 980 million credit cards, 267 million of which are MasterCard and Visa cards, according to RAM Research U.S.A., Frederick, Md. That translates into 8.7 credit cards per household, up from 4.6 just five years ago.

During the 1990s, the number of MasterCard and Visa cards held by Americans will grow an average of 6.3 million a year, estimates *The Nilson Report*, a newsletter published in Los Angeles. But it projects annual cardholder growth of only 1.2 million. □

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